

Contribution Methodology Proceeding (CC Docket No. 96-45)

**Presentation to the
Telecommunications Access Policy Division
Wireline Competition Bureau**

**by
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- A Declining Revenue Base is Not the Primary Cause for Increasing Contribution Factors.
- Certain Key Principles Should Guide the FCC's Choice of Contribution Methodology.
- The Interstate Revenue-Based Contribution System is Not Beyond Repair.
- A Connections-/Numbers-Based System Must Address Certain Issues.

A Declining Revenue Base is not the Primary Cause for Increasing Contribution Factors

- From 2000 through 2003, the FCC's universal service programs grew by approx. 28%.
 - During that same period, the FCC's high-cost universal service programs grew by approx. 46%.
 - From 2000 through 2003 incumbent LECs were responsible for over 90% of growth in the high-cost fund.
- From 2000 through 2003, the revenue base used for universal service contributions declined by approx 5%.
- In the last year, the contribution revenue base has leveled off, while the overall size of universal service funding continues to grow at a rapid pace.

Contribution Methodology Reform Principles

- Consistent with section 254(d) of the Act, the FCC's universal service contribution methodology should:
 - Ensure that all providers of interstate telecommunications contribute on an equitable and nondiscriminatory basis;
 - Ensure that individual consumer groups do not bear an unreasonable and unfair share of contribution obligations;
 - Minimize opportunities for telecommunications providers to avoid contribution obligations; and
 - Minimize administrative burdens and/or costs for contributors.

The FCC Should Not Abandon the Revenue-Based System

- The FCC should be concerned about migration of revenues to services that are not subject to contribution obligations, but the answer is not to abandon the interstate revenue-based system.
- The interstate revenue-based system has been endorsed by the courts, and enjoys the broad support of consumer groups and many state commissions.
- Interstate revenues remain a suitable measure for how consumers value the services they purchase and automatically adjusts to how those preferences change over time.
- USAC now has seven years experience administering the revenue-based system and auditing contributor revenues.
- The revenue-based system can be improved by broadening the base of contributors and enforcing existing rules.
- There is no compelling reason to abandon the current system for a new and uncertain connections- or numbers-based system.

The FCC Should Instead Modify the Revenue-Based System

- Weighing all the alternatives (revenues, connections, numbers), a revenues-based system that assesses contributions from as wide a revenue base as possible comes closest to satisfying the principles described above.
- The FCC should ensure that all providers of interstate telecommunications contribute to universal service.
- The FCC must vigorously enforce its contribution rules.

A Numbers/Connections-Based System Must Be Fair to Carriers and Consumers

- If the FCC nonetheless believes that a numbers- or connections-based system is preferable, the FCC should make sure that the system reflects a careful balancing of the goals listed above and actually addresses its concerns about a declining contribution base.
- Specifically, the FCC should make sure:
 - All providers of interstate telecommunications pay their fare share into the universal service fund;
 - Capacity tiers and multipliers do not provide unfair advantages for purchasers of higher-capacity connections;
 - Residential, single line business, and mobile wireless connections are assessed, but not based on capacity;
 - Multi-line business Centrex connections are not provided special discounts; and
 - Administrative complexity and opportunities for gaming are minimized.
- The numbers/connections-based proposals in the record would: (1) inappropriately reduce obligations for wireline long-distance providers; (2) shift contribution obligations to small users; and (3) invite gaming.